

To: Property Tax Reappraisal Committee
From: Dan Dodds, Department of Revenue
Date: March 3, 2009
Subject: Definitions of Income

You asked for a written explanation of three definitions of income that have been used in analyses presented to you.

Total Household Income is a definition of income that the Department of Revenue uses in presenting income tax information. It has been used because it is one of the broadest measures of income that can easily be calculated from the income tax return.

Total Household Income =
Total Income (Form 2, Line 22)
+ Montana Additions to Federal Adjusted Gross Income (Schedule I, Line 17)

The circuit breaker simulation model gives the user two options for defining income. Other definitions could be built into the program. The two options currently built into the program are

Montana Adjusted Gross Income (Form 2, Line 40)

A measure of income similar to the definition for the Elderly Homeowner Renter Credit, but using items on the tax return. It equals

The sum of positive items on Form 2, Lines 7, 8a, 8b, 9a, 10, 11, 12, 13, 14, 15a, 16a, a7, 18, 19, 20a, and 21

+ Montana Additions to Federal Adjusted Gross Income (Schedule I, Line 17)

2008 Montana Individual Income Tax Return

Form 2

For the year Jan 1 – Dec 31, 2008 or the tax year beginning [], 2008, ending [], 20[]

<input type="checkbox"/> Check this box if this is an amended return.	First name and initial	Last name	Social security number	If deceased, date of death
	Spouse's first name and initial	Last name	Spouse's social security number	If deceased, date of death
<input type="checkbox"/> Check here if this is a NOL Carryback.	Mailing address	City	State	Zip+4

Filing Status (check only one box) ☐ 1 Single ☐ 2 Married filing jointly ☐ 3a Married filing separately on the same form☐ 3b Married filing separately on separate forms. Spouse's SSN ▶ ☐ 4 Head of household☐ 3c Married filing separately and spouse not filing. Spouse's SSN ▶

Residency Status (check only one box)

☐ 5a Resident full year

Column A (for single, joint, separate, or head of household)

Column B (for spouse when filing separately using filing status 3a)

☐ 5b Nonresident full year Date of Change State moved to State moved from☐ 5c Resident part-year ▶ (abr.) ▶ (abr.) ▶

Exemptions	6a	<input checked="" type="checkbox"/> Yourself	<input type="checkbox"/> 65 or older	<input type="checkbox"/> Blind	Enter number checked ▶	6a		
	6b	<input type="checkbox"/> Spouse	<input type="checkbox"/> 65 or older	<input type="checkbox"/> Blind	Enter number checked ▶	6b		
	Dependents	6c	First name	Last name	Social security number	Relationship	Disabled	Enter the total number of dependents in line 6c. If additional dependents, see instructions on page 11.
							Yes ▶	
							Yes ▶	
							Yes ▶	
6d	Add lines 6a thru 6c and enter total exemptions here. ▶						6d	

Enter amounts corresponding to your federal return. Round to nearest dollar. If no entry, leave blank.

Federal Income	7	Wages, salaries, tips, etc. Attach federal Form(s) W-2. ▶						7			7
	8a	Taxable interest. Attach federal Schedule B if required. ▶						8a			8a
	8b	Tax-exempt interest. Do not include on line 8a. ▶						8b			8b
	9a	Ordinary dividends. Attach federal Schedule B if required. ▶						9a			9a
	9b	Qualified dividends. ▶						9b			9b
	10	Taxable refunds, credits, or offsets of state and local income taxes. ▶						10			10
	11	Alimony received. ▶						11			11
	12	Business income or (loss). Attach federal Schedule C or C-EZ. NAICS: ▶						12			12
	13	Capital gain or (loss). Attach federal Schedule D if required. ▶						13			13
	14	Other gains or (losses). Attach federal Schedule 4797. ▶						14			14
	15a	IRA distributions. ▶		15a		15a	Taxable amount. ▶	15b			15b
	16a	Pensions and annuities. ▶		16a		16a	Taxable amount. ▶	16b			16b
	17	Rental real estate, royalties, partnerships, S corporations, trust. Attach federal Schedule E. ▶						17			17
	18	Farm income or (loss). Attach federal Schedule F. ▶						18			18
Federal Adjusted Gross Income	19	Unemployment compensation. ▶						19			19
	20a	Social security benefits. ▶		20a		20a	Taxable amount. ▶	20b			20b
	21	Other income, list type. ▶						21			21
	22	Add the amounts in columns A and B for lines 7 thru 21. This is your total income. ▶						22			22
	23	Educator expenses. ▶						23			23
	24	Certain business expenses of reservist, etc. Attach Form 2106 or 2106EZ. ▶						24			24
	25	Health savings account deduction. Attach federal Form 8889. ▶						25			25
	26	Moving expenses. Attach federal Form 3903. ▶						26			26
	27	One-half of self-employment tax. Attach federal Schedule SE. ▶						27			27
	28	Self-employed SEP, SIMPLE, and qualified plans. ▶						28			28
	29	Self-employed health insurance deduction. ▶						29			29
	30	Penalty on early withdrawal of savings. ▶						30			30
	31a	Alimony paid. ▶						31a			31a
	31b	Recipient's SSN. ▶						31b			31b
Montana AGI	32	IRA deduction. ▶						32			32
	33	Student loan interest deduction. ▶						33			33
	34	Tuition and fees deduction. Attach Form 8917. ▶						34			34
	35	Domestic production activities deduction. Attach federal Form 8903. ▶						35			35
	36	Add lines 23 through 35 and enter the result here. Federal write-ins. ▶						36			36
	37	Subtract line 36 from line 22 and enter result here. ▶						37			37
	37a	Combine amounts on line 37 columns A and B and enter here. This is your federal adjusted gross income. ▶						37a			37a
38	Enter Montana additions to federal AGI from Form 2, page 3, Schedule I, line 17. Attach Form 2, page 3, Schedule I. ▶						38			38	
39	Enter Montana subtractions from federal AGI from Form 2, page 4, Schedule II, line 35. Attach Form 2, page 4, Schedule II. ▶						39			39	
40	Add lines 37 and 38; subtract line 39. This is your Montana adjusted gross income. ▶						40			40	

Voluntary Check-off ContributionsCheck the appropriate box(es) below if you wish to contribute in addition to your existing tax liability.
Please enter the total amount on Form 2, line 67.

67a.	Nongame Wildlife Program	\$5 ▶		\$10 ▶		or specify amount ▶	
67b.	Child Abuse Prevention	\$5 ▶		\$10 ▶		or specify amount ▶	
67c.	Agriculture in Schools	\$5 ▶		\$10 ▶		or specify amount ▶	
67d.	End-stage Renal Disease Program	\$5 ▶		\$10 ▶		or specify amount ▶	
67e.	Montana Military Family Relief Fund	\$5 ▶		\$10 ▶		or specify amount ▶	
Total voluntary check-off contributions.							

2008 Montana Individual Income Tax Table

If your taxable income is more than	but not more than	multiply your taxable income by	and subtract	equals your tax
\$0	\$2,600	1% (0.010)	\$0	
\$2,600	\$4,600	2% (0.020)	\$26	
\$4,600	\$7,000	3% (0.030)	\$72	
\$7,000	\$9,500	4% (0.040)	\$142	
\$9,500	\$12,200	5% (0.050)	\$237	
\$12,200	\$15,600	6% (0.060)	\$359	
	more than \$15,600	6.9% (0.069)	\$499	

For example: Taxable income \$6,800 X 3% (0.030) = \$204; \$204 minus \$72 = \$132 tax

Schedule I - Montana Additions to Federal Adjusted Gross Income

Enter on the corresponding line your additions to federal adjusted gross income.

File Schedule I with your Montana Form 2.

		Column A (for single, joint, separate, or head of household)	Column B (for spouse when filing separately using filing status 3a)
1	Interest and mutual fund dividends from state, county, or municipal bonds from other states.	1	1
2	Dividends not included in federal adjusted gross income.	2	2
3	Taxable federal refunds. Complete Worksheet II on page 51.	3	3
4	Other recoveries of amounts deducted in earlier years that reduced Montana taxable income. Complete Worksheet IX (available at mt.gov/revenue).	4	4
5	Addition to federal taxable social security/railroad retirement. Complete Worksheet VIII on page 55.	5	5
6	Sole proprietor's allocation of compensation to spouse.	6	6
7	Medical care savings account nonqualified withdrawals.	7	7
8	First-time home buyer savings account nonqualified withdrawals.	8	8
9	Farm and ranch risk management account taxable distributions.	9	9
10	Addition for dependent care assistance credit adjustment.	10	10
11	Addition for smaller federal estate and trust taxable distributions.	11	11
12	Federal net operating loss carryover reported on Form 2, line 21.	12	12
13	Share of federal income taxes paid by your S corporation.	13	13
14	Title plant depreciation and amortization.	14	14
15	Premiums for Insure Montana Small Business Health Insurance credit.	15	15
16	Other additions. Specify: <input type="text"/>	16	16
17	Add lines 1 through 16. Enter total here and on Form 2, line 38.	17	17

This is your total Montana additions to federal adjusted gross income.

Schedule II - Montana Subtractions from Federal Adjusted Gross Income

Enter on the corresponding line your subtractions from federal adjusted gross income.

File Schedule II with your Montana Form 2.Column A (for single,
joint, separate, or
head of household)Column B (for spouse
when filing separately
using filing status 3a)

		Column A (for single, joint, separate, or head of household)	Column B (for spouse when filing separately using filing status 3a)
1	Exempt interest and dividends from federal bonds, notes, and obligations.	1	1
2	Exempt tribal income. Attach Montana Form IND.	2	2
3	Exempt unemployment compensation.	3	3
4	Exempt workers' compensation benefits.	4	4
5	Exempt capital gains and dividends from small business investment companies.	5	5
6	State income tax refunds included in Montana Form 2, line 10.	6	6
7	Recoveries of amounts deducted in earlier years that did not reduce Montana income.	7	7
8	Exempt military salary of residents on active duty.	8	8
9	Exempt income of nonresident military servicepersons and spouses.	9	9
10	Exempt life insurance premiums reimbursement for National Guard and Reservist.	10	10
11	Partial pension and annuity income exemption. Report Tier II Railroad Retirement on line 23 below.	11	11
12	Partial interest exemption for taxpayers 65 and older.	12	12
13	Partial retirement disability income exemption for taxpayers under age 65. Attach Form DS-1.	13	13
14	Exemption for certain taxed tips and gratuities.	14	14
15	Exemption for certain income of child taxed to parent.	15	15
16	Exemption for certain health insurance premiums taxed to employee.	16	16
17	Exemption for student loan repayments taxed to health care professional.	17	17
18	Exempt medical care savings account deposits and earnings. Attach Form MSA.	18	18
19	Exempt first-time home buyer savings account deposits and earnings. Attach Form FTB.	19	19
20	Exempt family education savings account deposits and earnings.	20	20
21	Exempt farm and ranch risk management account deposits. Attach Form FRM.	21	21
22	Subtraction to federal taxable social security/Tier I Railroad Retirement reported on Form 2, line 20b.	22	22
23	Subtraction for federal taxable Tier II Railroad Retirement benefits reported on Form 2, line 16b.	23	23
24	Passive loss carryover exclusion.	24	24
25	Capital loss adjustment.	25	25
26	Subtraction of sole proprietor for allocation of compensation to spouse.	26	26
27	Montana net operating loss carryover from Montana Form NOL, Schedule B.	27	27
28	40% capital gain exclusion for pre-1987 installment sales.	28	28
29	Subtraction for business related expenses for purchasing recycled material.	29	29
30	Subtraction for sales of land to beginning farmers.	30	30
31	Subtraction for larger federal estate and trust taxable distribution.	31	31
32	Subtraction for wage deduction reduced by federal targeted jobs credit.	32	32
33	Subtraction for certain gains recognized by liquidating corporation.	33	33
34	Other subtractions. Specify: ▶ <input type="text"/>	34	34
35	Add lines 1 through 34, enter total here and on Form 2, line 39. This is your total Montana subtractions from federal adjusted gross income. ▶	35	35